

## SUMMARY OF FINANCIAL RESULTS IN 2000

City Light's financial results in 2000 were severely affected by volatility in wholesale power markets in the Western region. The Department's reliance on market purchases to serve load was increased by subnormal water conditions in the watersheds in which its hydroelectric plants are located. Market prices in the second half of the year reached levels that were several times higher than prices in previous years. The resulting increase in purchased power costs caused the Department to incur a net loss of \$52.0 million.

The City Council has responded to the sudden increase in power costs by adopting two power cost adjustments of 9.8% and 18.0%, effective January 1 and March 1, 2001 respectively. Other rate increases are likely to be adopted in 2001.

### REVENUE

Operating revenue in 2000 totaled \$396.1 million, an increase of \$23.3 million from the 1999 level. Revenue from sales to retail customers in the Department's service area rose from \$366.0 million in 1999 to \$383.7 million in 2000, an increase of 4.8%. The increase in revenue reflects the general rate increase authorized by the City Council with an effective date of December 24, 1999. Energy billed to retail customers was virtually unchanged from 1999 to 2000. Growth of 1.3% in energy billed to commercial customers (including governmental accounts) was offset by decreases of 0.1% in energy billed to industrial customers and 1.6% in billings to customers in the residential classes. Accrued but unbilled revenue increased by \$2.6 million for all classes combined.

Sales to Nordstrom facilities in California generated an additional \$7.9 million, an increase of \$5.9 million from the 1999 level. This increase reflected a change in the terms of the Department's contract with Nordstrom, which tied the price of power delivered under the contract to prices in the wholesale market.

### POWER COSTS

The cost of power supply in 2000, including the cost of long-term purchased power contracts, short-term wholesale power transactions, operation and maintenance costs in City Light's generating plants, transmission and other power costs, totaled \$235.0 million in 2000, an increase of \$117.4 million from the amount recorded in 1999.

**Wholesale Power Transactions, Net.** The large increase in power supply costs was due to a change in the Department's balance of loads and resources from 1999 to 2000 and to a sharp increase in the price of power in wholesale energy markets. In 1999, the Department had significant amounts of surplus power available for sale in the wholesale market due to favorable water conditions. In 2000, however, the Department was required to buy power in the wholesale market to offset a firm resource deficit. The Department's planning for 2000 had assumed that firm load would exceed firm resources available to the Department, due primarily to a 1996 amendment to the Department's contract with the

Bonneville Power Administration that limited purchases from Bonneville to 195 average MW. The impending sale of the Department's 8% share of the Centralia Steam plant was expected to increase the firm resource deficit further by 81 average MW. Water conditions that were below normal in 2000 caused an additional reduction in the energy available to meet load. The Department intended to rely on purchases of power in the wholesale market to fill the gap between firm loads and resources. Wholesale market prices were expected to be at the levels experienced in 1999, when prices generally ranged from \$10 per MWh to \$40 per MWh. However, prices in wholesale power markets in the Western region began to increase in May 2000 and by August had reached levels that were several times higher than prices in the prior year. Prices remained high the second half of the year and peaked in December. For the year 2000 as a whole, the Department purchased 1,981,189 MWh of energy in the wholesale market at an average price of \$93.32 per MWh for a total cost of \$184.9 million. Offsetting this cost was revenue of \$88.7 million from the sale of 1,657,261 MWh of energy at an average price of \$53.50 per MWh. Sales took place primarily before the sharp increase in prices, while most purchases occurred in the second half of the year. The net expense related to wholesale market sales and purchases in 2000 was therefore \$96.2 million, an increase of \$113.4 million over the 1999 level, when favorable water conditions resulted in net revenue of \$17.2 million from wholesale market sales and purchases. In addition, reported expenses include \$16.6 million of booked out energy that was scheduled into and out of the same point of delivery. Sales of reserve capacity provided an offset of \$3.9 million to power costs.

**Long-term Purchased Power.** The cost of power available to the Department under long-term contracts with other utilities in 2000 was \$75.0 million, a decrease of \$5.0 million from the 1999 level. A change in amortization period from 35 years to 50 years relating to costs associated with the British Columbia contract for deliveries of power in lieu of construction of the High Ross Dam (the High Ross contract) accounts for the decrease in purchased power costs. This contract provides for delivery of 35.4 average MW of power to the Department each year from 1986 through 2065 in return for an annual capital payment of \$21.8 million from 1986 through 2020, plus imputed operations and maintenance costs and other costs. From 1986 through 1999, the payments were being amortized over 35 years. In setting rates for the period beginning in 2000, the City Council authorized the Department to amortize the remaining capital payments over a period of 50 years in equal annual amounts of \$12.7 million, resulting in expenses related to the High Ross contract to be \$9.1 million lower than in 1999. The cost of other purchased power contracts changed little from 1999 to 2000. Payments to the Bonneville Power Administration were \$1.4 million higher in 2000 because less surplus power was used to displace power from Bonneville in 2000 than in 1999. Lower generation due to poor water conditions resulted in a reduction of \$1.0 million in payments for power from Lucky

Peak and others except for power exchanges. Valuation of the energy receivable and deliverable at year-end under various exchange contracts with other utilities resulted in an additional expense of \$2.8 million.

**Generation.** The cost of operating and maintaining the Department's generating resources in 2000 was \$25.7 million, a decrease of \$5.4 million from the prior year. Sale of the Centralia Steam plant in May 2000 resulted in a reduction of \$6.7 million in operating costs relative to the cost of operating the plant for a full year in 1999. Hydroelectric generation costs increased by \$1.3 million from 1999 to 2000.

**Transmission.** Transmission costs, including both the cost of wheeling power over the lines of other utilities and the cost of operating and maintaining the Department's transmission infrastructure, declined by \$0.7 million from 1999 to 2000. All of this decrease is attributable to lower costs of operations and maintenance for the Department's transmission system, which were \$0.8 million below the 1999 level. Wheeling costs at \$17.0 million were \$0.1 million higher than in 1999.

**Power Marketing and System Control.** Costs associated with the Department's power marketing unit and energy management systems increased from \$4.5 million in 1999 to \$5.5 million in 2000.

#### OTHER OPERATING AND MAINTENANCE EXPENSES

Operating and maintenance expenses, excluding those related to power supply and transmission, declined by \$6.3 million from 1999 to 2000. Distribution expenses were \$2.6 million lower than in 1999 as a higher proportion of staff resources were allocated to capital improvement projects. Customer accounting and customer service costs increased by \$2.1 million. Almost half of the increase (\$1.0 million) was attributable to an increase in charges for uncollectible accounts. Administrative and general expenses decreased by \$5.7 million. Administrative and general costs allocated to capital projects increased by \$4.3 million from 1999 to 2000, reflecting the shift in emphasis from operating to capital projects in the main operating divisions.

#### TAXES

Expenses for taxes and payments to other jurisdictions totaled \$42.9 million in 2000, an increase of \$4.2 million over the 1999 level. Higher revenues resulted in an increase of \$2.5 million in revenue-based tax payments to the City of Seattle and the State of Washington. The remainder of the increase reflects higher contractual payments to counties in which City Light facilities are located, higher franchise payments to cities outside Seattle which are served by City Light, an increase in taxable contributions in aid of construction and an increase in the calculated arbitrage rebate liability.

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense was \$55.5 million in 2000, an increase of \$1.5 million from the 1999 level. The increase reflects an increase of \$51.1 million in the value of plant and equipment in 2000 resulting from the Department's continuing investment in its capital improvement program.

#### GAIN ON THE SALE OF THE CENTRALIA STEAM PLANT

In May 2000, the sale of the Centralia Steam plant was completed. The Department received \$41.4 million in proceeds from the sale and recorded a gain of \$29.6 million.

#### INVESTMENT INCOME

The Department realized \$9.7 million in income from investment of available cash balances in 2000, an increase of \$5.6 million from 1999. Valuation of the Department's investments at market prices at year-end accounted for \$3.4 million of this increase. The remainder of the increase reflects higher cash balances available for investment.

#### OTHER DEDUCTIONS

In 1999, the Department recorded \$3.9 million in charges related to non-recurring expenses and adjustment in that year. In 2000, such charges and adjustment resulted in a net expense of \$0.2 million, an improvement of \$3.7 million.

#### DEBT EXPENSE

Interest expense and other charges related to the Department's outstanding debt totaled \$53.1 million in 2000, an increase of \$5.2 million over the 1999 level. Interest accrued on \$158 million in first-lien bonds issued in October 1999 was \$9.4 million in 2000, or \$7.7 million above the prior year's level. Interest on the Department's second-lien variable-rate bonds was \$0.8 million higher in 2000 than in 1999. Offsetting these increases were interest savings from the redemption of outstanding bonds at maturity, an increase of \$1.3 million in interest during construction, and a reduction in miscellaneous interest expense.

#### NET INCOME AND DEBT SERVICE COVERAGE

As a result of all of the factors discussed above, the Department recorded a net loss of \$52.0 million in 2000. Net revenues available for debt service, including the proceeds of the sale of the Centralia Steam plant<sup>1</sup> were sufficient to cover first-lien debt service payments 1.26 times.

<sup>1</sup> City Light's bond ordinances define Gross Revenue to include the proceeds of property sales. The \$41.4 million proceeds received by the Department from the sale of the Centralia Steam plant was therefore included in net revenue available for debt service in computing coverage. The gain on the sale of the Centralia Steam plant, reported on the operating statement, totaled \$29.6 million.

## **Independent Auditors' Report**

### **SUPERINTENDENT, SEATTLE CITY LIGHT DEPARTMENT:**

*We have audited the accompanying balance sheets of the City of Seattle – City Light Department (the Department) as of December 31, 2000 and 1999, and the related statements of operations and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.*

*We conducted our audits in accordance with auditing standards accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.*

*In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles accepted in the United States of America.*

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Seattle, Washington

March 30, 2001

# BALANCE SHEETS

As of December 31,

2000

1999

<b>Assets</b>		
<b>Utility Plant, at Original Cost:</b>		
Plant in service, excluding land	\$ 1,811,151,094	\$ 1,735,104,405
Less accumulated depreciation	(756,498,165)	(731,545,437)
	1,054,652,929	1,003,558,968
Construction work-in-progress	152,981,465	118,281,967
Nonoperating property, net of accumulated depreciation	6,613,263	6,366,276
Land and land rights	27,919,760	28,029,695
	1,242,167,417	1,156,236,906
<b>Capitalized Purchased Power Commitment</b>	<b>65,855,587</b>	<b>73,854,788</b>
<b>Restricted Assets:</b>		
Municipal Light & Power Bond Reserve Account:		
Cash and equity in pooled investments	53,087,023	39,954,532
U.S. government securities	13,348,344	21,893,730
Bond proceeds and other:		
Cash and equity in pooled investments	3,969,797	679,865
	70,405,164	62,528,127
<b>Current Assets:</b>		
Cash and equity in pooled investments	21,100,253	62,080,012
Accounts receivable (net of allowance of \$3,590,000 and \$3,290,000)	68,780,916	55,442,628
Unbilled revenues	35,437,430	32,160,350
Materials and supplies and coal inventory, at average cost	21,548,144	21,824,632
Prepayments and other	2,061,280	7,009,588
	148,928,023	178,517,210
<b>Other Assets:</b>		
Deferred conservation costs, net	79,936,854	71,186,295
Other deferred charges, net	33,818,445	23,541,651
	113,755,299	94,727,946
	<b>\$ 1,641,111,490</b>	<b>\$ 1,565,864,977</b>

See notes to the financial statements.

*As of December 31,***2000****1999**

<b>Equity And Liabilities</b>		
<b>Equity:</b>		
Retained earnings	\$ 247,990,953	\$ 300,019,689
Contributions in aid of construction	125,474,828	113,259,359
	373,465,781	413,279,048
<b>Long-term Debt:</b>		
Revenue bonds, due serially	1,103,992,500	1,041,342,000
Less bond discount and premium, net	(3,875,722)	(6,116,829)
Less deferred charges on advanced refunding	(37,164,273)	(41,188,656)
Less revenue bonds due within one year	(39,760,000)	(36,179,500)
	1,023,192,505	957,857,015
<b>Noncurrent Liabilities:</b>		
Accumulated provision for injuries and damages	6,452,407	5,976,313
Long-term purchased power obligation	65,855,587	73,854,788
Less obligation due within one year	(8,355,000)	(7,875,000)
	63,952,994	71,956,101
<b>Current Liabilities:</b>		
Accounts payable and other	103,101,707	49,918,806
Accrued payroll and payroll taxes payable	3,423,297	3,118,751
Compensated absences payable	9,449,249	9,072,861
Accrued interest	14,654,120	14,733,181
Revenue bonds due within one year	39,760,000	36,179,500
Purchased power obligation due within one year	8,355,000	7,875,000
	178,743,373	120,898,099
<b>Deferred Credits</b>	<b>1,756,837</b>	<b>1,874,714</b>
<b>Commitments and Contingencies (Notes 3, 6, and 9)</b>		
	<b>\$ 1,641,111,490</b>	<b>\$ 1,565,864,977</b>

*See notes to the financial statements.*

# STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS

<i>Years Ended December 31,</i>	<i>2000</i>	<i>1999</i>
<b>Operating Revenues</b>	<b>\$ 396,065,874</b>	<b>\$ 372,750,765</b>
<b>Operating Expenses:</b>		
Long-term purchased power	74,999,373	79,984,055
Wholesale power transactions, net	108,575,194	(18,865,574)
Power marketing and system control	5,504,322	4,508,274
Generation	25,665,927	31,071,778
Transmission	20,295,706	20,960,408
Distribution	34,523,307	37,138,587
Customer service	28,578,761	26,504,669
Administrative and general	37,593,250	43,310,839
City of Seattle occupation tax	24,002,685	21,791,151
Other taxes	18,857,370	16,869,928
Depreciation	55,498,917	54,022,390
	434,094,812	317,296,505
Net operating income (loss)	(38,028,938)	55,454,260
<b>Other Income and Deductions:</b>		
Investment income	9,753,106	4,140,404
Interest expense	(48,097,827)	(42,740,018)
Amortization of debt expense	(5,054,837)	(5,208,932)
Gain on sale of Centralia Steam Plant	29,639,799	
Other expense, net	(240,039)	(3,907,245)
	(13,999,798)	(47,715,791)
<b>Net income (loss)</b>	<b>(52,028,736)</b>	<b>7,738,469</b>
<b>Retained Earnings:</b>		
Beginning of the year	300,019,689	292,281,220
<b>End of the year</b>	<b>\$ 247,990,953</b>	<b>\$ 300,019,689</b>

*See notes to the financial statements.*

## STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	<i>2000</i>	<i>1999</i>
<b>Operating Activities:</b>		
Cash received from customers	\$ 492,199,632	\$ 449,089,525
Cash paid to suppliers and employees	(374,875,524)	(301,825,330)
Taxes paid	(40,833,895)	(40,592,305)
Net cash provided by operating activities	76,490,213	106,671,890
<b>Capital and Related Financing Activities:</b>		
Proceeds from long-term debt, net of premium	100,491,983	159,132,847
Bond issue costs paid	(256,391)	(438,200)
Principal paid on long-term debt	(36,179,500)	(35,285,000)
Interest paid on long-term debt	(53,988,291)	(45,537,530)
Acquisition and construction of capital assets	(177,974,051)	(155,498,414)
Proceeds from sale of Centralia Steam Plant	41,399,047	
Proceeds from sale of other property, plant, and equipment	406,836	32,930
Contributions in aid of construction	8,405,446	6,335,359
Net cash used for capital and related financing activities	(117,694,921)	(71,258,008)
<b>Investing Activities:</b>		
Proceeds from long-term loans receivable	385,090	905,132
Long-term loans issued	(115,363)	(629,136)
Proceeds from sale of investments	8,216,000	1,000,000
Interest received on investments	8,161,645	5,242,824
Net cash provided by investing activities	16,647,372	6,518,820
Net increase (decrease) in cash and equity in pooled investments	(24,557,336)	41,932,702
Cash and equity in pooled investments at beginning of year	102,714,409	60,781,707
<b>Cash and equity in pooled investments at end of year</b>	<b>\$ 78,157,073</b>	<b>\$ 102,714,409</b>

## RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

<i>Years Ended December 31,</i>	<i>2000</i>	<i>1999</i>
Net operating income (loss)	\$ (38,028,938)	\$ 55,454,260
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	63,510,859	61,227,747
Cash provided by (used for) changes in operating assets and liabilities:		
Accounts receivable	(8,420,793)	(3,902,688)
Unbilled revenues	(3,277,080)	(629,526)
Other deferred charges	3,484,498	1,058,526
Materials and supplies and coal inventory	(1,524,255)	(2,805,070)
Prepayments and other	4,322,595	(4,401,932)
Provision for injuries and damages	476,094	2,545,751
Accounts payable and other	55,384,180	(1,382,034)
Accrued payroll and payroll taxes payable	304,546	(761,848)
Compensated absences payable	376,388	463,179
Other	(117,881)	(194,475)
Net cash provided by operating activities	\$ 76,490,213	\$ 106,671,890

## CASH AND EQUITY IN POOLED INVESTMENTS AT DECEMBER 31 CONSIST OF:

Cash and cash equivalents	\$ 23,103,365	\$ 6,339,840
Equity in pooled investments	55,053,708	96,374,569
	<b>\$ 78,157,073</b>	<b>\$ 102,714,409</b>

See notes to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2000 and 1999

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## Note 1: Operations and Summary of Significant Accounting Policies

The City Light Department (the Department) is the public electric utility of the City of Seattle (the City). The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 349,600 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department also provides nonenergy services to other City agencies and received \$1.4 million in 2000 and 1999 for such services. Included in accounts receivable at December 31, 2000 and 1999, are \$7.5 million and \$4.8 million, respectively, representing amounts due from other City departments for services provided, reimbursements, and interest receivable on cash and equity in pooled investments.

The Department receives certain services from other City agencies and paid approximately \$27.5 million and \$26.6 million, respectively, in 2000 and 1999 for such services. Included in accounts payable for the same time periods are \$6.2 million and \$6.3 million, respectively, representing amounts due other City departments for goods and services received.

### ACCOUNTING STANDARDS

The accounting and reporting policies of the Department are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Department elected to apply all Financial Accounting Standards Board (FASB) statements and interpretations except for those that conflict with or contradict GASB pronouncements.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which requires reporting on the value of infrastructure assets effective for fiscal years beginning after June 15, 2001, for Phase I Governments, with total annual revenues of \$100 million or more in fiscal year 1999. The Department does not anticipate a material impact to its financial position or operations as a result of implementation of GASB Statement No. 34.

In June 1998, FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard was amended in June 2000 by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. Both standards are effective for fiscal years beginning after June 15, 2000, and were adopted by the Department as of January 1, 2001. SFAS Nos. 133 and 138 require that the fair value of derivative financial instruments be recognized as either assets or liabilities on the Department's balance sheet. Changes in the fair value of a derivative instrument would be included in earnings. The Department concluded regarding long-term contracts for electric energy and related commodities such as transmission and reserve capacity, and for all purchase orders of other commodities used in the business, that transactions outstanding at December 31, 2000, constituted normal purchases and sales under SFAS Nos. 133 and 138, and as such are not subject to the requirements of SFAS No. 133. The Department also had outstanding purchases of electric energy at December 31, 2000, under short-term forward contracts that are considered to be derivatives under FASB interpretations guiding the implementation of SFAS No. 133, as some of the energy is subject to net settlement through the bookout process and may not be physically delivered. For the contracts that the Department believes are required to be accounted for under the standard, the Department recorded an asset of \$5.4 million, a liability of \$6.7 million, and a deferred loss of \$1.3 million on January 1, 2001. The deferred loss is anticipated to be reversed in 2001 when the contracts are carried to term. In accordance with City Council Resolution No. 30290, the deferred loss is a regulatory asset pursuant to SFAS No. 71. Thus, the adoption of SFAS Nos. 133 and 138 will have no impact on recorded earnings. The Department's conclusions regarding the accounting treatment and financial statement impact of SFAS No. 133 could change based on interpretations of issues pending before the FASB.

### UTILITY PLANT

Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The allowance represents the estimated costs of financing construction projects and is computed using the Department's most recent long-term borrowing rate. The allowance totaled \$5.6 million and \$4.2 million in 2000 and 1999, respectively, and is reflected as a reduction of interest expense in the statements of operations and changes in retained earnings. Property constructed with contributions in aid of construction received from customers is included in utility plant. Contributions totaled \$15.7 million in 2000 and \$10.4 million in 1999. Amortization totaled \$3.5 million and \$3.1 million, resulting in net contributions of \$12.2 million and \$7.3 million in 2000 and 1999, respectively. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from three to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 3.3% in 2000 and 1999. When operating plant assets are retired, their original cost together



with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized.

#### OTHER ASSETS

Other assets consist of deferred programmatic conservation and weatherization costs incurred for purposes of load reduction and energy efficiency. These costs are being recovered through rates over 20 years. Also included are deferred mitigation expenditures spent under settlement agreements associated with the FERC operating license for the Skagit Hydroproject, unamortized debt expense, real estate and conservation loans, and a portion of the annual payment to British Columbia for the treaty regarding the addition to Ross Dam, which are being recovered over four to 36 years. Billable work in progress is also included.

#### RESTRICTED ASSETS

In accordance with the Department's bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of the Municipal Light & Power (ML&P) Bond Reserve Account, financing of the Department's ongoing Capital Improvement Program, and other purposes.

#### CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

The City pools and invests all temporary cash surpluses for City departments. These residual investments may consist of deposits with qualified public depositories; obligations of the United States or its agencies or wholly owned corporations; obligations of eligible government-sponsored enterprises; and certain bankers' acceptances, commercial paper, general obligation bonds or warrants, repurchase agreements, reverse repurchase agreements, mortgage-backed securities, and derivative-based securities; and are in accordance with the Revised Code of Washington (RCW) 35.39.032 and 39.58. According to City policy, securities purchased will have a maximum maturity of no longer than 15 years, and the average maturity of all securities owned should be no longer than five years. Also by City policy, the City may operate a securities lending program and there were transactions during 2000 but not during 1999. There were no securities lending program transactions outstanding at year-end 2000 or 1999. The Department's equity in residual investments is reflected as cash and equity in pooled investments. The City's residual investment pool did not include reverse repurchase agreements at the end of 2000 or 1999; the City did invest in such instruments during both years. Derivative-based securities were owned by the City pool during 2000 and 1999 and at both year ends. These securities were callable U.S. government agency instruments. Earnings and adjustments to fair value from the investment pool are prorated monthly to City departments based on the average daily cash balances of participating funds.

Banks or trust companies acting as the City's agents hold most of the City's investments in the City's name, with respect to credit risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including*

*Repurchase Agreements), and Reverse Repurchase Agreements.* All transactions are executed with authorized security dealers, financial institutions, or securities lending agents on a delivery versus payment basis.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income. At December 31, changes in the fair value of investments resulted in an unrealized gain of \$862,604 for 2000 and loss of \$2,497,774 for 1999.

The cash pool operates like a demand deposit account in that all City departments, including the Department, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

Cash and cash equivalents included in cash and equity in pooled investments at December 31 consist of:

	2000	1999
<b>Restricted assets:</b>		
Municipal Light & Power		
Bond Reserve Account	\$ 15,682,128	\$ 2,481,063
Bond proceeds and other	1,171,565	42,199
	16,853,693	2,523,262
Current assets	6,249,672	3,816,578
	\$ 23,103,365	\$ 6,339,840

Equity in pooled investments and U.S. government securities are reported at fair values based on quoted market prices for those or similar securities and are as follows at December 31:

	2000	1999
<b>Restricted assets:</b>		
Municipal Light & Power		
Bond Reserve Fund:		
Equity in pooled investments	\$ 37,404,895	\$ 37,473,469
U.S. government securities	13,348,344	21,893,730
Bond proceeds and other:		
Equity in pooled investments	2,798,232	637,666
	\$ 53,551,471	\$ 60,004,865
<b>Current assets:</b>		
Equity in pooled investments	\$ 14,850,581	\$ 58,263,434

#### COMPENSATED ABSENCES

Permanent employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are entitled to compensation for unused vacation. At retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. The Department accrues all costs associated with compensated absences, including payroll taxes.

## ACCOUNTS PAYABLE AND OTHER

The composition of accounts payable and other is as follows:

	2000	1999
Vouchers payable	\$ 14,907,362	\$ 15,043,107
Power accounts payable	71,140,213	17,666,148
Interfund payable	6,224,826	6,325,951
Taxes payable	6,168,185	5,256,886
Claims payable, current	1,571,387	652,449
Guarantee deposit and contract retainer	2,798,571	1,394,478
Other accounts payable	291,163	3,579,787
	\$ 103,101,707	\$ 49,918,806

## REVENUE RECOGNITION

Service rates are authorized by City of Seattle ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements under the caption unbilled revenues.

The Department's customer base is comprised of four identifiable groups, which accounted for electric energy sales as follows:

	2000	1999
Residential	38.2%	38.8%
Commercial	41.0	38.4
Industrial	12.1	12.5
Governmental	8.7	10.3
	100.0%	100.0%

## USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported unbilled revenues, accumulated provision for injuries and damages, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

## SIGNIFICANT RISK AND UNCERTAINTY

The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include water conditions, weather, and natural disaster related disruptions; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; and the deregulation of the electrical utility industry.

## RECLASSIFICATIONS

Certain 1999 account balances have been reclassified to conform to the 2000 presentation.

## Note 2: Jointly Owned Plant

The Department was one of eight public and private utilities that constructed and owned as tenants-in-common a 1,343 megawatt (MW) coal-fired, steam-electric generating plant located near Centralia, Washington. The Department's ownership interest was 8% until May 7, 2000, when the plant was sold to TransAlta Corporation, a Canadian corporation. Proceeds received from the sale were \$41.4 million and the gain on the sale was \$29.6 million. The Department's share of operating expenses and plant investment associated with the Centralia Steam Plant is included in the accompanying financial statements until the date of sale. The Department's share of the investment in the Centralia Steam Plant at December 31, 1999, was:

Utility plant in service	\$ 28,620,025
Less accumulated depreciation	(20,889,960)
	\$ 7,730,065

## Note 3: Long-term Debt

### PRIOR LIEN BONDS

In December 2000, the Department issued \$98.8 million in ML&P Revenue Bonds that bear interest at rates ranging from 4.5% to 5.625% and mature serially from December 1, 2006, through 2025.

In October 1999, the Department issued \$158.0 million in ML&P Revenue Bonds that bear interest at rates ranging from 5% to 6% and mature serially from October 1, 2006, through 2024.

Proceeds from the 2000 and 1999 bond issues were used to finance a portion of the Department's ongoing capital improvement and conservation program.

Prior lien bonds outstanding at December 31, 2000, totaled \$998.2 million. Principal redemptions extend through 2025 with interest to be paid at rates ranging from 4.50% to 6.00%. Future debt service requirements on these bonds are as follows:

Year ending December 31,	Principal redemptions	Interest requirements	Total
2001	\$ 37,360,000	\$ 53,105,842	\$ 90,465,842
2002	39,291,500	51,259,217	90,550,717
2003	40,250,000	49,274,905	89,524,905
2004	44,915,000	47,143,019	92,058,019
2005	45,531,000	44,804,890	90,335,890
Thereafter	790,845,000	393,230,193	1,184,075,193
	\$ 998,192,500	\$ 638,818,066	\$ 1,637,010,566

The Department is required by ordinance to fund reserves for prior lien bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all bonds secured by the reserve account or (b) the maximum amount permitted by the Internal Revenue Code (IRC) of 1986 as a reasonably required reserve or replacement fund. Upon issuance of the 2000 bonds, the maximum annual debt service on prior lien bonds increased from \$86.7 million to \$92.1 million. The IRC's requirement increased from \$72.4

million to \$77.3 million. At December 31, 2000, the balance in the reserve account was \$66.4 million at fair value. The reserve must be fully funded by December 1, 2005.

The Department has issued several refunding revenue bonds for the purpose of defeasing certain outstanding prior lien bonds. Refunding revenue bonds were recently issued in 1993 and 1998. Proceeds from the refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Accordingly, neither the assets of the respective trust accounts nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The bonds defeased in 1998 and 1993 had outstanding balances at cost of \$94.7 million and \$10.0 million as of December 31, 2000, respectively. Funds held in the respective trust accounts on December 31, 2000, will be sufficient to service and redeem the defeased bonds.

In March 2001, the Department issued \$503.7 million in ML&P Improvements and Refunding Revenue Bonds with interest rates ranging from 5.125% to 5.50%. The arbitrage yield for the 2001 bonds is 4.99%. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the bonds, produces an amount equal to the issue price of the bonds. The 2001 bonds mature serially from March 1, 2004, through 2026. Proceeds will be used to finance certain capital improvements and conservation programs and to defease certain outstanding prior lien bonds.

#### SUBORDINATE LIEN BONDS

The Department is authorized to issue a limited amount of adjustable rate revenue bonds, which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of \$70 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short-term, or long-term and may be converted to prior lien bonds when certain conditions are met.

In December 1996, the Department issued ML&P Adjustable Rate Revenue Bonds in the amount of \$19.8 million, subject to a mandatory redemption schedule spanning the period from June 1, 2002, to June 1, 2021. These bonds were marketed weekly at an interest rate ranging from 2.85% to 5.75% during 2000. Proceeds were used to finance a portion of the capital improvement and conservation program.

The 1990 bonds and 1991 Series B bonds were \$21.6 million and \$19.0 million, respectively, at December 31, 2000, and were marketed on a short-term basis during 2000 with interest rates ranging from 3.35% to 6.00%.

The 1991 Series A bonds and the 1993 bonds were \$25.0 million and \$20.4 million, respectively, at December 31, 2000, and were priced weekly at interest rates from 2.75% to 6.00% in 2000.

As of December 31, 2000, the Department had outstanding subordinate lien bonds totaling \$105.8 million. Future principal redemptions and interest requirements on these bonds, based on estimated interest rates ranging from 4.00% to 6.20% through year 2021, are as follows:

<i>Year ending December 31,</i>	<i>Principal redemptions</i>	<i>Interest requirements</i>	<i>Total</i>
2001	\$ 2,400,000	\$ 4,677,362	\$ 7,077,362
2002	3,360,000	4,257,021	7,617,021
2003	3,585,000	3,971,370	7,556,370
2004	4,115,000	3,860,794	7,975,794
2005	4,445,000	3,850,608	8,295,608
Thereafter	87,895,000	29,241,648	117,136,648
	\$ 105,800,000	\$ 49,858,803	\$ 155,658,803

#### REVENUE ANTICIPATION NOTES

In March 2001, the Department issued \$182.2 million in ML&P Revenue Anticipation Notes (Notes). \$136.7 million of the Notes bear interest at a rate of 4.50%, and \$45.5 million bear interest at a rate of 5.25%. The arbitrage yield of the Notes is 3.75%. The Notes mature in March 2003, and the proceeds will be used to finance 2001 operating expenses. The Notes are special limited obligations of the Department payable from and secured by gross revenues. The Notes are on a lien subordinate to prior lien bonds and subordinate lien bonds; there is no reserve account securing repayment of the Notes, and there is no coverage requirement for the Notes.

#### FAIR VALUE OF BONDS

The fair value of the Department's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values are as follows at December 31:

	<i>2000</i>		<i>1999</i>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
Long-term debt:				
Prior lien bonds	\$ 994,611,605	\$ 925,154,114	\$ 927,637,863	\$ 919,026,000
Subordinate lien bonds	105,505,173	105,800,000	107,587,307	107,900,000
	\$1,100,116,778	\$1,030,954,114	\$1,035,225,170	\$1,026,926,000

#### AMORTIZATION

Bond issue costs, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the straight-line method. Deferred refunding costs amortized to interest expense totaled \$4.0 million in 2000 and \$4.2 million in 1999. Deferred refunding costs in the amount of \$37.2 million and \$41.2 million are reported as a component of long-term debt in the 2000 and 1999 balance sheets, respectively.

#### Note 4: Seattle City Employees' Retirement System

The Seattle City Employees' Retirement System (SCERS) is a single-employer public employee retirement system, covering employees of the City of Seattle and administered in accordance with Chapter 41.28 of the Revised Code of

Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a department of the City of Seattle.

All employees of the City of Seattle are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the state of Washington. As of the actuarial valuation date, there were 4,681 annuitants receiving benefits and 8,669 active members of SCERS. In addition, 703 vested terminated employees were entitled to future benefits, and 161 terminated employees had restored their contributions due to the provisions of the portability statutes and may be eligible for future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service; while death and disability benefits vest after 10 years of service. Retirement benefits are calculated, generally, as 2% multiplied by years of creditable service, multiplied by average salary, based on highest 24 consecutive months excluding overtime. The benefit is actuarially reduced for early retirement.

Actuarially determined contribution rates both for members and for the employer were 8.03% of covered payroll during 2000 and 1999.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104; telephone (206) 386-1292.

Employer contributions for the City of Seattle were as follows:

<i>Year ended December 31,</i>	<i>Annual pension cost (millions)</i>	<i>Annual required contribution (millions)</i>	<i>Percentage contributed</i>
1997	\$ 28.3	\$ 28.3	100 %
1998	30.6	30.6	100
1999	16.7	29.7	178

#### **Actuarial data**

Valuation date	January 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period of the funding excess from January 1, 1997	30 years
Asset valuation method	Market

#### **Actuarial assumptions\***

	<i>Percentage</i>
Investment rate of return	8.00 %
Projected general wage increases	4.50
Cost-of-living year-end bonus dividend	0.67

\* Underlying price inflation at 4.0%.

Schedule of funding progress for the City of Seattle (dollar amounts in millions):

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liabilities (AAL) Entry Age (1)(b)</i>	<i>Unfunded AAL (UAAL) (2)(b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (3)(c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
1/1/1998 (4)	\$ 1,224.6	\$ 1,266.7	\$ 42.1	96.7%	\$ 341.5	12.3%
1/1/1999	1,375.0	1,326.6	(48.4)	103.6	370.4	(13.1)
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.

2. Actuarial accrued liabilities less actuarial value of assets, Funding Excess if negative.

3. Covered payroll includes compensation paid to all active employees on which contributions are calculated.

4. Reflects increased COLA (cost of living adjustment) benefits adopted by the City Council after the valuation was completed.

## **Note 5: Deferred Compensation**

The Department's employees may contribute to the City of Seattle's Voluntary Deferred Compensation Plan (the Plan). The Plan, available to City employees and officers, permits participants to defer a portion of their salary until future years. The deferred compensation is paid to participants and their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan became an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Department.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

## **Note 6: Long-term Purchased Power and Wholesale Power Transactions, Net**

### **BONNEVILLE POWER ADMINISTRATION**

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA) under a long-term contract expiring on September 30, 2001. The BPA rate structure is based on the total amount of energy delivered and the monthly peak power demand.

Until August 1, 1996, the Department was an actual computed requirements customer of BPA and was entitled to buy from BPA the energy required to fill the variance between its customer load and its firm power resources. The Department had a right to displace this entitlement, by payment of an availability charge. Effective August 1, 1996, the contract with BPA was amended, through the remaining



life of the contract, to limit purchases to 195 megawatts (MW). The Department can still displace part of this amount by paying an availability charge; BPA energy displaced was 1.3 average MW (aMW) in 2000 and 14.4 aMW in 1999. Power purchased under this contract was 193.7 aMW in 2000 and 180.6 aMW in 1999. The 1996 contract amendment required payment of a diversity fee of \$2 million that is being amortized over the remaining contract period, which concludes September 30, 2001.

In 1983, the Department entered into separate net billing agreements with BPA and Energy Northwest (formerly the Washington Public Power Supply System), a municipal corporation and joint operating agency of the state of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements, the Department is unconditionally obligated to pay Energy Northwest a pro rata share of the total annual costs including debt service to finance the cost of construction, whether or not construction is completed, delayed, or terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs be recovered through BPA rates. One plant is in commercial operation. Construction of the other two plants has been terminated.

In October 2000, the Department signed a new Block and Slice Power Sales Agreement with BPA covering purchases of power for the 10-year period beginning October 1, 2001. Under the terms of this contract, the Department will be entitled to purchase 493.8 aMW of firm power from October 1, 2001, through September 30, 2006. Firm power available under the contract will increase to 608.2 aMW in the second five years of the contract period to provide for load growth and to offset a decline in power available through the Department's contracts with the Columbia Storage Power Exchange, Pend Oreille County PUD, and Public Utility District No. 1 of Grant County. As a result of an allocation agreement among BPA customers, the Department will receive 330 aMW of this firm energy in the form of a Slice product, through which the Department will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System and will be required to pay that same percentage of the actual costs of the system. Payments for the Slice product will be subject to adjustments to reflect actual costs. In addition to the 330 aMW firm power available to the Department from the Slice product, the Department expects to receive some nonfirm power from its share of the Slice product under average water conditions. The actual amounts of firm and nonfirm energy will vary with water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The remaining 163.8 aMW of firm energy in the first five-year period and 278.2 aMW in the second five-year period will be received as a block of power shaped to the Department's monthly net requirement, defined as the difference between the Department's projected monthly load and firm resources available to serve that load.

## LUCKY PEAK

In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The power purchased under this agreement was 38.8 aMW and 48.6 aMW in 2000 and 1999, respectively. To properly reflect its rights and obligations under this agreement, the Department includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account.

## BRITISH COLUMBIA – ROSS DAM

In 1984, an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Department with power equivalent to that which would result from an addition to the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. The power is to be received for 80 years and began in 1986. The Department makes annual payments to British Columbia of \$21.8 million, which represent the estimated cost the Department would have incurred for financing had the addition been constructed. The payments are charged to expense over a period of 50 years, through 2035.

The Department is also paying equivalent operation and maintenance costs. Payments made for this purpose totaled \$153,499 and \$148,987 in 2000 and 1999, respectively. The power available for purchase under this agreement was 33.9 MW and 35.2 MW, and up to 175 MW and 223 MW of actual peak capacity in 2000 and 1999, respectively.

In addition to the direct costs of power under the agreement, the Department incurred costs of approximately \$8 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

## OTHER LONG-TERM PURCHASE POWER AGREEMENTS

The Department also purchases energy from Public Utility Districts (the PUDs) No. 1 of Pend Oreille County and No. 2 of Grant County, under agreements expiring August 1, 2005, and December 31, 2005, respectively; the Grand Coulee Project Hydroelectric Authority (the Authority) which includes the South, East, and Quincy Columbia Basin Irrigation Districts under 40-year agreements that expire from 2022 to 2027; and the Columbia Storage Power Exchange until expiration of the agreement on March 31, 2003. Power purchased under these contracts was 87.3 aMW in 2000 and 99.9 aMW in 1999. Rates under the PUD, excluding Pend Oreille County, and Authority contracts represent the share

of the operating and debt service costs in proportion to the share of total energy to which the Department is entitled whether or not these plants are operating or operable.

#### MINIMUM PAYMENTS UNDER PURCHASE POWER CONTRACTS

The Department's share of minimum payments under its contracts with the PUDs, irrigation districts, power exchange corporation, Lucky Peak Project and British Columbia – Ross Dam, excluding operating costs, for the period from 2000 through 2020 are:

<i>Year ending December 31,</i>	<i>Minimum payments</i>
2001	\$ 46,128,311
2002	42,136,970
2003	39,777,624
2004	39,785,775
2005	40,807,668
Thereafter	368,454,700
	\$ 577,091,048

Payments under these long-term contracts totaled \$50.3 million in 2000 and \$48.9 million in 1999. Energy received represented 45.4% of the Department's total purchases under firm power contracts during 2000 and 50.5% during 1999.

#### WHOLESALE POWER TRANSACTIONS, NET

Power transactions in response to seasonal resource and demand variations include purchases and sales at market under short-term agreements and exchanges of power under long and short-term contracts. Revenues from sales of surplus energy and capacity totaled \$103.8 million in 2000 and \$53.2 million in 1999. Expenses for purchases of deficit energy totaled \$212.4 million in 2000 and \$34.3 million in 1999. Wholesale power contract commitments outstanding at December 31, 2000 and 1999, were \$42.5 million and \$1.1 million, respectively, for purchases. For power sales contracts, there were no outstanding commitments as of December 31, 2000, and \$1.0 million outstanding as of December 31, 1999. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities. Accordingly, power transactions in and out may vary significantly from year to year. Wholesale power transactions, net are reflected in the statements of operations and changes in retained earnings.

In March 1998, the Department was certified as a scheduling coordinator with the California Independent System Operator to submit schedules and sell power and ancillary services in California.

In November 2000, the Department and the City of Klamath Falls, Oregon, entered into an agreement for the purchase of energy and capacity from the Klamath Falls Cogeneration Project, a 500 MW unit consisting of two combustion turbines fueled by natural gas and a steam generator. Under the terms of the contract, the Department will receive 100 MW of capacity from the project beginning on the project's on-line date, estimated to be July 1, 2001, and for five years thereafter, with an option to renew the contract for an additional five years. Minimum required contract payments over the five-year agreement for fixed capacity charges total \$63.9 million and in addition the

Department assumes gas price and exchange rate risks for gas from Alberta, Canada.

#### Note 7: Deferred Costs

Deferred costs comprise programmatic conservation costs and a portion of the payment to British Columbia for Ross Dam. City Council-passed resolutions authorize the debt financing and deferral of all programmatic conservation costs incurred by the Department. Approximately \$14.2 million and \$15.9 million in programmatic conservation costs were deferred in 2000 and 1999, respectively. These costs are to be recovered through rates over 20 years. In 2000 and 1999, \$5.4 million and \$4.7 million, respectively, were amortized to expense. The total remaining balances of unamortized conservation costs at December 31, 2000 and 1999, were \$79.9 million and \$71.2 million, respectively. Amounts related to the deferral of debt payments for Ross Dam are \$9.1 million and \$-0- for 2000 and 1999, respectively. This deferral will be amortized between 2021 and 2035.

#### Note 8: Provision For Injuries and Damages

The Department is self-insured for casualty losses to its property, for environmental cleanup, and for certain losses arising from third-party damage claims. The Department establishes liabilities for claims based on estimates of the ultimate cost of claims. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, industry averages, city-wide cost allocations, and other economic and social factors. The estimate for incurred but not reported (IBNR) claims was increased \$492,989 in 2000 and \$2.2 million in 1999, on a discounted basis. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 12 to 16 years in 2000 and 1999 at the City's average annual rate of return on investments, which was 6.167% in 2000 and 5.692% in 1999. Liabilities for environmental cleanup and for casualty losses to the Department's property do not include IBNR and are not discounted due to uncertainty with respect to regulatory requirements and settlement dates, respectively.

The schedule below presents the changes in the provision for injuries and damages during 2000 and 1999:

	<b>2000</b>	<b>1999</b>
Unpaid claims at January 1	\$ 6,628,762	\$ 5,937,189
Payments	(1,501,512)	(5,056,196)
Incurred claims	2,896,544	5,747,769
Unpaid claims at December 31	\$ 8,023,794	\$ 6,628,762

The provision for injuries and damages is included in current and noncurrent liabilities as follows:

	<b>2000</b>	<b>1999</b>
Noncurrent liabilities	\$ 6,452,407	\$ 5,976,313
Accounts payable and other	1,571,387	652,449
	\$ 8,023,794	\$ 6,628,762

## Note 9: Commitments and Contingencies

### OPERATING LEASES

In December 1994, the City entered into an agreement on behalf of the Department for a 10-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996, the City purchased the building in which these facilities are located, thus becoming the Department's lessor.

The Department also has four other long-term operating leases for smaller facilities used for office and storage purposes.

Expense under the leases totaled \$3.5 million and \$3.6 million in 2000 and 1999, respectively. Deferred credits related to the 10-year lease of office facilities in downtown Seattle totaled \$1.6 million and \$1.8 million in 2000 and 1999, respectively.

Minimum payments under the leases are:

<i>Year ending December 31,</i>	<i>Minimum payments</i>
2001	\$ 3,526,121
2002	3,629,610
2003	3,629,976
2004	3,526,208
2005	3,536,877
Thereafter	294,740
	\$ 18,143,532

### OTHER

Associated with the FERC operating license for the Skagit Hydroproject, which is in effect until the year 2025, are settlement agreements which commit the Department to undertake certain mitigation activities. The mitigation cost is estimated at \$40.5 million, of which \$29.5 million have been expended.

The estimated financial requirement for the Department's 2001 capital improvement and conservation program is \$132.5 million, and the Department has substantial contractual commitments relating thereto.

Some fish species that inhabit waters where

hydroelectric projects are owned by the Department or where the Department purchases power have been listed under the ESA as either threatened or endangered. In 1995, the National Marine Fisheries Service (NMFS) developed a broad species recovery plan for the Columbia River Basin and supplemental plans in 1998 and 2000, based on biological opinions relating to the Columbia and Snake River fisheries. As a result, the Department's power generation at its Boundary Project has been reduced in the fall and winter when the region experiences its highest sustained energy demand, and the Boundary Project's firm capability has also been reduced. In the opinion of the Department, it is unlikely that new biological opinions will result in significant changes in flows that would affect Boundary Project, Priest Rapids, and the Bonneville system. While it is unclear how other fish listings, including bull trout and chinook salmon, may affect the Department's hydroelectric projects and operations, the Department has entered into agreements that include extensive measures to protect fish and were intended to mitigate all potential impacts of its projects on the Cedar, Skagit, and South Fork Tolt rivers.

Section 401 of the federal Clean Water Act requires states to provide a water quality certification as a precondition for federal actions including licensing of hydroelectric projects. An agreement was reached for the Newhalem Creek plant on minimum stream flows necessary to protect fish and incorporated into the FERC license issued in 1997. The effect on power generation capability is not known, but the Department anticipates that, in most cases, measures taken pursuant to the ESA should also serve to satisfy Clean Water Act requirements.

Effective November 22, 1999, the Department committed to pay a total of \$11.6 million over 10 years ending 2008 to Pend Oreille County, on behalf of the county and certain school districts and towns located therein, to compensate for loss of revenues and additional financial burdens associated with the Department's operation of the Boundary Hydroelectric Project on the Pend Oreille River. The combined impact compensation and retroactive payment totaled \$1.0 million annually for 2000 and 1999.



## FINANCIAL SUMMARY

<i>For the years ended December 31,</i>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>Balance Sheet</b>					
<b>Assets</b>					
Utility plant, net	\$ 1,242,167,417	\$ 1,156,236,906	\$ 1,072,654,414	\$ 1,013,700,966	\$ 977,989,653
Capitalized purchased power commitment	65,855,587	73,854,788	81,330,278	88,756,582	94,465,223
Restricted assets <sup>A</sup>	70,405,164	62,528,127	60,129,933	56,166,032	52,443,919
Current assets <sup>A</sup>	148,928,023	178,517,210	130,463,176	145,498,789	151,715,855
Other assets	113,755,299	94,727,946	84,168,892	74,545,834	68,036,045
Total assets	\$ 1,641,111,490	\$ 1,565,864,977	\$ 1,428,746,693	\$ 1,378,668,203	\$ 1,344,650,695
<b>Equity &amp; Liabilities</b>					
Equity <sup>A</sup>	\$ 373,465,781	\$ 413,279,048	\$ 398,284,823	\$ 408,450,084	\$ 374,439,654
Long-term debt, net	1,023,192,505	957,857,015	830,973,490	771,670,124	769,109,579
Noncurrent liabilities	63,952,994	71,956,101	75,958,677	83,623,913	90,789,505
Current liabilities	178,743,373	120,898,099	121,460,514	113,179,296	109,133,937
Deferred credits	1,756,837	1,874,714	2,069,189	1,744,786	1,178,020
Total equity & liabilities	\$ 1,641,111,490	\$ 1,565,864,977	\$ 1,428,746,693	\$ 1,378,668,203	\$ 1,344,650,695
<b>Statement Of Operations</b>					
<b>Operating Revenues</b>					
Residential	\$ 148,343,023	\$ 142,542,347	\$ 134,622,904	\$ 136,934,204	\$ 132,505,751
Commercial	159,202,753	141,105,588	135,685,224	137,216,230	132,806,239
Industrial	47,085,945	45,891,368	50,234,594	52,418,715	49,771,070
Governmental	33,669,484	37,766,052	37,360,320	38,241,277	38,990,344
Sales for resale	-	-	1,556,314	-	-
Unbilled revenue-net change	3,277,080	629,526	1,166,004	(2,099,434)	2,597,289
Total sales of electric energy	391,578,285	367,934,881	360,625,360	362,710,992	356,670,693
Other revenues	4,487,589	4,815,884	3,287,770	3,427,171	3,061,751
Total operating revenues	396,065,874	372,750,765	363,913,130	366,138,163	359,732,444
<b>Operating Expenses</b>					
Long-term purchased power	74,999,373	79,984,055	79,999,162	73,952,830	67,357,080
Wholesale power transactions, net	108,575,194	(18,865,574)	17,105,639	(21,325,153)	(6,871,852)
Power marketing and system control	5,504,322	4,508,274	3,716,008	3,228,159	3,142,173
Generation	25,665,927	31,071,778	31,019,177	30,687,731	29,411,054
Transmission	20,295,706	20,960,408	19,866,792	20,575,865	18,983,536
Distribution	34,523,307	37,138,587	35,974,507	34,240,097	34,074,948
Customer service	28,578,761	26,504,669	29,365,498	27,509,669	24,685,271
Administrative and general	37,593,250	43,310,839	37,831,932	37,210,668	42,387,664
Taxes	42,860,055	38,661,079	38,162,001	37,105,624	36,089,689
Depreciation	55,498,917	54,022,390	54,213,420	51,892,420	45,916,579
Total operating expenses	434,094,812	317,296,505	347,254,136	295,077,910	295,176,142
Net operating income (loss)	(38,028,938)	55,454,260	16,658,994	71,060,253	64,556,302
Gain on sale of Centralia Steam Plant	29,639,799	-	-	-	-
Other income (expense), net	(240,039)	(3,907,245)	(1,214,197)	(6,931,565)	(1,558,908)
Investment income <sup>A</sup>	9,753,106	4,140,404	7,222,664	8,467,693	5,648,899
Total operating and other income	1,123,928	55,687,419	22,667,461	72,596,381	68,646,293
<b>Interest Expense</b>					
Interest expense	53,651,607	46,952,066	42,809,590	43,284,665	42,347,221
Amortization of debt expense	5,054,837	5,208,932	5,356,167	5,198,827	5,247,412
Interest charged to construction	(5,553,780)	(4,212,048)	(2,921,783)	(2,317,158)	(1,961,320)
Net interest expense	53,152,664	47,948,950	45,243,974	46,166,334	45,633,313
Net income (loss)	\$ (52,028,736)	\$ 7,738,469	\$ (22,576,513)	\$ 26,430,047	\$ 23,012,980

<sup>A</sup> GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", was implemented in 1997 to report investments at fair value and the fair value adjustments as part of investment income. Accordingly, values and amounts for 1996 were restated and equity includes the cumulative effect of implementing GASB Statement No. 31.

## INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON BONDED DEBT

As of December 31, 2000

Years	Prior Lien Bonds			Subordinate Lien Bonds	
	Principal	Interest	Total	Principal	Interest <sup>B</sup>
2001	\$ 37,360,000	\$ 53,105,842	\$ 90,465,842	\$ 2,400,000	\$ 4,677,362
2002	39,291,500	51,259,217	90,550,717	3,360,000	4,257,021
2003	40,250,000	49,274,905	89,524,905	3,585,000	3,971,370
2004	44,915,000	47,143,019	92,058,019 <sup>A</sup>	4,115,000	3,860,794
2005	45,531,000	44,804,890	90,335,890	4,445,000	3,850,608
2006	46,980,000	42,500,405	89,480,405	4,775,000	3,703,927
2007	49,530,000	40,032,928	89,562,928	5,305,000	3,572,170
2008	48,855,000	37,793,833	86,648,833	5,840,000	3,342,551
2009	48,550,000	35,139,687	83,689,687	6,270,000	3,075,680
2010	47,900,000	32,474,867	80,374,867	6,705,000	2,771,929
2011	46,900,000	30,111,039	77,011,039	7,345,000	2,722,544
2012	46,350,000	27,488,177	73,838,177	7,785,000	2,604,703
2013	45,635,000	24,900,450	70,535,450	8,425,000	2,262,284
2014	45,035,000	22,341,550	67,376,550	8,865,000	1,799,802
2015	44,505,000	19,831,588	64,336,588	9,410,000	1,331,760
2016	43,920,000	17,386,751	61,306,751	7,755,000	786,304
2017	42,655,000	14,992,238	57,647,238	2,600,000	518,751
2018	40,575,000	12,686,575	53,261,575	2,750,000	369,051
2019	38,380,000	10,488,263	48,868,263	1,300,000	207,744
2020	34,925,000	8,408,805	43,333,805	1,355,000	128,858
2021	31,230,000	6,541,925	37,771,925	1,410,000	43,590
2022	28,555,000	4,797,619	33,352,619	-	-
2023	26,670,000	3,197,315	29,867,315	-	-
2024	25,890,000	1,694,712	27,584,712	-	-
2025	7,805,000	421,466	8,226,466	-	-
Totals	\$ 998,192,500	\$ 638,818,066	\$ 1,637,010,566	\$ 105,800,000	\$ 49,858,803

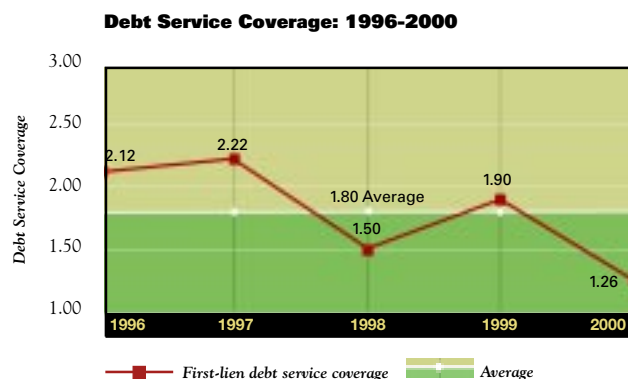
<sup>A</sup> Maximum debt service—see Note 3 on page 20.

<sup>B</sup> Based on actual and estimated interest rates ranging from 4.00% to 6.20%.

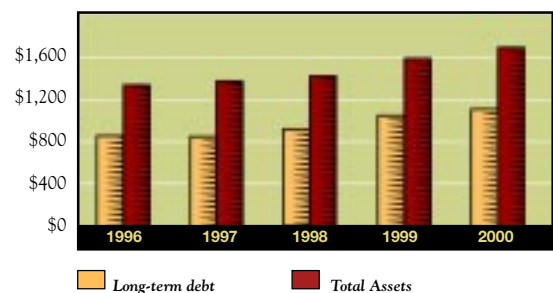
## DEBT SERVICE COVERAGE: PRIOR LIEN BONDS

For the years ended December 31,

	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2000	\$104,629,835	\$83,205,503	1.26
1999	143,335,963	75,394,637	1.90
1998	105,024,128	69,898,371	1.50
1997	157,402,022	71,035,264	2.22
1996	144,099,243	68,001,376	2.12



**Long-term Debt to Total Assets**  
(In Millions)



# STATEMENT OF BONDED DEBT

As of December 31, 2000

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Redeemed	Amount Outstanding 12/31/00	Amount Due Within One Year	Accrued Interest	
Bonds redeemed at 12-31-00								
General Lien Bonds								
1903-14	1923-1924	\$	4,044,000	\$	4,044,000			
Revenue Bonds <sup>A</sup>								
1917-95	1923-2020		1,330,288,500		1,330,288,500			
TOTAL			\$	1,334,332,500	\$	1,334,332,500		
Prior Lien Bonds								
Series 1992	2001	5.200	\$	4,740,000	\$	4,740,000	\$	102,700
Series 1992	2002	5.300		4,710,000		4,710,000		104,012
Series 1992	2003	5.400		5,680,000		5,680,000		127,800
Series 1992	2004	5.500		5,630,000		5,630,000		129,021
Series 1992	2005	5.625		5,575,000		5,575,000		130,664
Series 1992	2006-2012	5.750		72,250,000		72,250,000		1,730,990
Series 1992	2013-2014	6.000		19,310,000		19,310,000		482,750
Series 1992	2015-2017	5.750		33,450,000		33,450,000		801,407
Series 1993	2001	4.700		27,620,000		27,620,000	27,620,000	216,357
Series 1993	2002	4.800		28,840,000		28,840,000		230,720
Series 1993	2003	4.900		27,250,000		27,250,000		222,542
Series 1993	2004	5.000		28,525,000		28,525,000		237,708
Series 1993	2005	5.100		29,795,000		29,795,000		253,257
Series 1993	2006	5.200		23,020,000		23,020,000		199,507
Series 1993	2007	5.300		24,200,000		24,200,000		213,767
Series 1993	2008	5.400		12,020,000		12,020,000		108,180
Series 1993	2009-2010	5.450		25,415,000		25,415,000		230,853
Series 1993	2011-2013	5.500		12,425,000		12,425,000		113,896
Series 1993	2014-2018	5.375		25,645,000		25,645,000		229,736
Series 1994	2001-2004	6.000		11,960,000		11,960,000	2,575,000	358,800
Series 1995	2001	5.000		1,770,000		1,770,000	1,770,000	29,500
Series 1995	2002	4.500		241,500		241,500		3,622
Series 1995	2002-2004	5.000		4,825,000		4,825,000		80,417
Series 1995	2005	4.800		456,000		456,000		7,296
Series 1995	2006-2007	5.000		4,650,000		4,650,000		77,500
Series 1995	2008	5.125		2,515,000		2,515,000		42,965
Series 1995	2009	5.300		2,655,000		2,655,000		46,905
Series 1995	2010	5.400		2,805,000		2,805,000		50,490
Series 1995	2011	5.500		2,970,000		2,970,000		54,450
Series 1995	2012	5.600		3,145,000		3,145,000		58,707
Series 1995	2013-2018	5.625		23,285,000		23,285,000		436,594
Series 1995	2019-2020	5.700		9,815,000		9,815,000		186,484

Continued on next page.

<i>Name of Bond</i>	<i>When Due</i>	<i>Interest Rate (%)</i>	<i>Amount Issued</i>	<i>Amount Redeemed</i>	<i>Amount Outstanding 12/31/00</i>	<i>Amount Due Within One Year</i>	<i>Accrued Interest</i>
Series 1996	2002-2008	5.250	\$ 7,055,000	\$	7,055,000	\$	92,597
Series 1996	2009	5.300	1,235,000		1,235,000		16,364
Series 1996	2010	5.400	1,300,000		1,300,000		17,550
Series 1996	2011-2013	5.500	4,365,000		4,365,000		60,019
Series 1996	2014-2021	5.625	16,045,000		16,045,000		225,633
Series 1997	2003-2018	5.000	21,425,000		21,425,000		535,625
Series 1997	2019-2022	5.125	8,575,000		8,575,000		219,734
Series 1998	2001-2004	4.500	2,790,000		2,790,000	655,000	62,775
Series 1998	2005-2008	4.750	18,990,000		18,990,000		451,012
Series 1998	2009-2020	5.000	82,390,000		82,390,000		2,059,750
Series 1998	2004-2019	4.750	59,545,000		59,545,000		235,699
Series 1998	2021	4.875	11,250,000		11,250,000		45,703
Series 1998	2024	5.000	19,205,000		19,205,000		80,021
Series 1999	2006-2007	5.000	6,250,000		6,250,000		78,125
Series 1999	2008-2009	5.750	13,500,000		13,500,000		194,062
Series 1999	2010	5.875	2,500,000		2,500,000		36,719
Series 1999	2011-2024	6.000	135,750,000		135,750,000		2,036,250
Series 2000	2006	5.000	2,875,000		2,875,000		11,979
Series 2000	2007	4.500	3,015,000		3,015,000		11,306
Series 2000	2008	5.250	3,150,000		3,150,000		13,781
Series 2000	2009-2011	5.500	10,505,000		10,505,000		48,148
Series 2000	2012-2018	5.625	32,325,000		32,325,000		151,523
Series 2000	2019	5.250	5,715,000		5,715,000		25,003
Series 2000	2020	5.300	6,015,000		6,015,000		26,566
Series 2000	2021	5.250	6,330,000		6,330,000		27,694
Series 2000	2025	5.400	28,900,000		28,900,000		130,050
Total Prior Lien Bonds			\$ 998,192,500	\$	998,192,500	\$ 37,360,000	\$ 14,193,285
<b>Subordinate Lien Bonds</b>							
Series 1990	2001-2015	3.350-5.250 <sup>B</sup>	\$ 21,600,000	\$	21,600,000	\$ 900,000	\$ 199,504
Series 1991	2001-2016	2.750-6.000 <sup>B</sup>	44,000,000		44,000,000	700,000	250,017
Series 1993	2001-2018	2.750-6.000 <sup>B</sup>	20,400,000		20,400,000	800,000	61,368
Series 1996	2002-2021	2.850-5.750 <sup>B</sup>	19,800,000		19,800,000	-	58,315
Total Subordinate Bonds			\$ 105,800,000	\$	105,800,000	\$ 2,400,000	\$ 569,204
Total Bonded Debt			\$ 1,103,992,500	\$	1,103,992,500	\$ 39,760,000	\$ 14,762,489

<sup>A</sup> Including bonds defeased through refundings and Subordinate Lien Bonds.

<sup>B</sup> Adjustable rates in effect during 2000.

## CUSTOMER STATISTICS

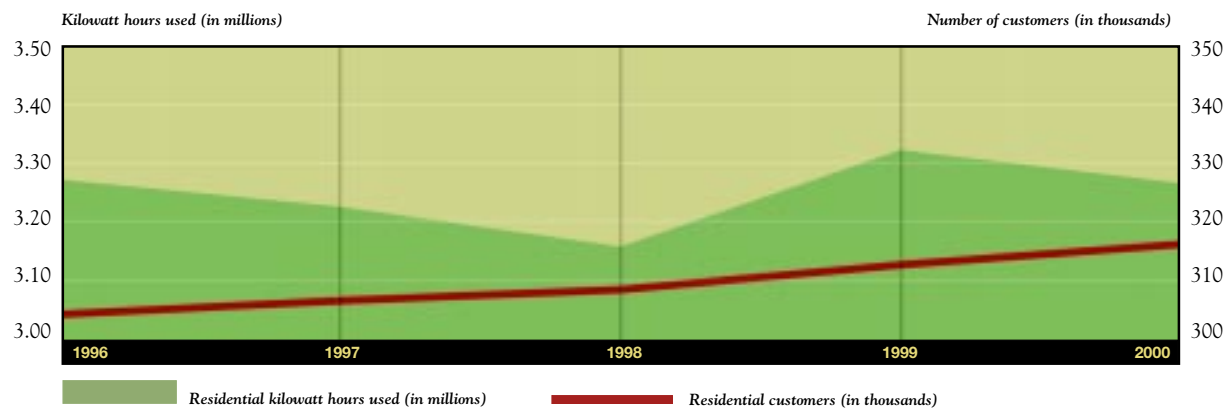
For the years ended December 31,	2000	1999	1998	1997	1996
<b>Average Number Of Customers</b>					
Residential	316,758	312,849	308,564	306,629	304,287
Commercial	30,839	30,568	30,376	30,243	30,005
Industrial	276	279	286	291	295
Governmental	1,686	1,817	1,836	1,869	1,945
Sales for Resale	-	-	1	-	-
<b>Total</b>	<b>349,559</b>	<b>345,513</b>	<b>341,063</b>	<b>339,032</b>	<b>336,532</b>
<b>Kilowatt Hours (In 000's) *</b>					
Residential	34% 3,260,325	35% 3,314,126	34% 3,153,926	35% 3,221,824	36% 3,267,794
Commercial	41% 3,885,959	39% 3,742,142	39% 3,607,461	38% 3,560,037	38% 3,506,608
Out of service area (commercial)	1% 96,399	1% 89,906	1% 63,876	0% -	0% -
Industrial	14% 1,340,396	14% 1,341,721	15% 1,454,783	16% 1,474,754	15% 1,412,509
Governmental	10% 902,865	11% 986,754	11% 996,077	11% 983,445	11% 987,010
Sales for Resale	-	-	- 58,508	-	-
Unbilled kWh—net change	- 70,948	- 13,150	- 23,052	- (7,829)	- 14,079
<b>Total</b>	<b>100% 9,556,892</b>	<b>100% 9,487,799</b>	<b>100% 9,357,683</b>	<b>100% 9,232,231</b>	<b>100% 9,188,000</b>

\* Percentages exclude sales for resale and unbilled kWh-net change.

### Average Annual Revenue Per Customer (In Service Area)

Residential	\$ 468	\$ 456	\$ 436	\$ 447	\$ 435
Commercial	\$ 4,906	\$ 4,552	\$ 4,423	\$ 4,537	\$ 4,426
Industrial	\$ 170,601	\$ 164,485	\$ 175,645	\$ 180,133	\$ 168,715
Governmental	\$ 19,975	\$ 20,785	\$ 20,349	\$ 20,461	\$ 20,046

### Residential Consumption



## CUSTOMER STATISTICS

For the years ended December 31,		2000	1999	1998	1997	1996
<b>Average Annual Consumption Per Customer (Kwhs) <sup>A</sup></b>						
Residential	- Seattle	10,293	10,593	10,221	10,507	10,739
	- National	10,623	10,237	10,284	10,072	10,275
Commercial	- Seattle	126,010	122,420	118,700	117,714	116,867
	- National	71,640	68,858	69,489	68,679	67,250
Industrial	- Seattle	4,856,507	4,809,036	5,086,654	5,067,883	4,788,116
	- National	1,909,814	1,930,929	1,933,285	1,825,789	1,757,938
Governmental	- Seattle	535,507	543,068	542,526	526,188	507,460
	- National <sup>B</sup>	n/a	106,614	110,403	106,354	108,668
<b>Average Rate Per Kilowatt Hour (Cents) <sup>A</sup></b>						
Residential	- Seattle	4.55	4.30	4.27	4.25	4.05
	- National	8.21	8.16	8.26	8.43	8.36
Commercial	- Seattle	3.89	3.72	3.72	3.85	3.79
	- National	7.20	7.26	7.41	7.58	7.64
Industrial	- Seattle	3.51	3.42	3.45	3.55	3.52
	- National	4.45	4.43	4.48	4.54	4.60
Governmental	- Seattle	3.73	3.83	3.75	3.89	3.95
	- National	6.82	6.83	6.63	6.89	6.94
Total	- Seattle <sup>C</sup>	4.06	3.89	3.87	3.93	3.88
	- National	6.66	6.64	6.74	6.85	6.86

<sup>A</sup> Source of national data: Edison Electric Institute, source and disposition data (2000 preliminary, 1999 revised to actuals).

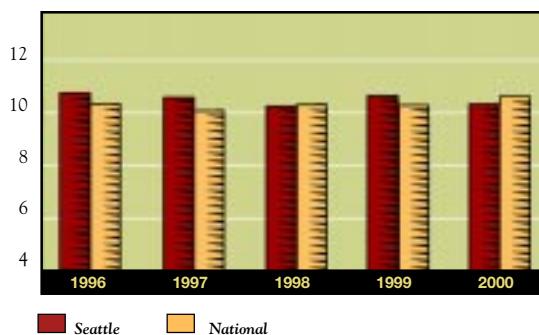
<sup>B</sup> 2000 data not available as of this printing.

<sup>C</sup> Seattle total includes the unbilled revenue adjustment. Other Seattle rates on this schedule do not include this adjustment.

NOTE: The latest rate adjustment is effective July 1, 2001. Rates are set by the Seattle City Council. Notice of public hearings may be obtained on request to The Office of the City Clerk, Municipal Building, 600-4th Avenue, Room 104, Seattle WA 98104.

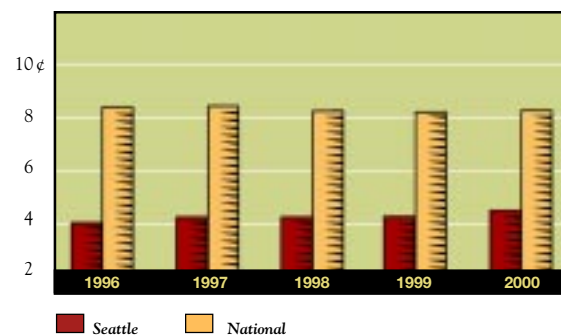
### Average Annual Residential Consumption

(In thousands of kilowatt hours)



### Average Residential Rates

(In cents per kilowatt hour)



# POWER

For the years ended December 31,	2000	1999	1998	1997	1996
<b>Power Costs</b>					
Hydraulic generation <sup>A</sup>	\$ 28,288,083	\$ 26,746,081	\$ 26,360,001	\$ 27,678,950	\$ 26,619,873
Steam generation <sup>A, B</sup>	7,521,097	14,664,491	14,963,065	13,067,074	12,739,214
Long-term purchased power	74,999,373	79,984,055	79,999,162	73,952,830	67,357,080
Wholesale power purchases <sup>C, D</sup>	212,402,254	34,295,550	52,032,908	14,106,211	11,974,145
Wholesale power sales <sup>C, D</sup>	(103,827,060)	(53,161,124)	(34,927,269)	(35,431,364)	(18,845,997)
Owned transmission <sup>A</sup>	5,775,106	6,504,089	5,818,679	5,826,148	5,855,282
Wheeling expenses	17,001,385	16,864,661	16,683,699	17,355,147	15,700,345
Power marketing and system control	5,504,322	4,508,274	3,716,008	3,228,159	3,142,173
Total power costs	\$ 247,664,560	\$ 130,406,077	\$ 164,646,253	\$ 119,783,155	\$ 124,542,115
<b>Power Statistics (1000's Kwh)</b>					
Hydraulic generation	6,405,929	7,764,312	6,160,442	8,346,762	7,921,980
Steam generation <sup>B</sup>	277,103	689,802	712,095	538,374	602,360
Long-term purchased power	3,149,215	3,213,813	3,016,515	2,814,135	2,349,801
Wholesale power purchases <sup>C, D</sup>	2,459,825	1,159,875	2,198,887	922,229	803,311
Wholesale power sales <sup>C, D</sup>	(2,230,670)	(2,672,264)	(2,019,502)	(2,834,626)	(1,892,277)
Other <sup>E</sup>	(504,510)	(667,739)	(710,754)	(554,644)	(597,175)
Total power delivered	9,556,892	9,487,799	9,357,683	9,232,230	9,188,000
Average cost per kWh delivered (in mills)	25.915	13.745	17.595	12.974	13.555

<sup>A</sup> Including depreciation.

<sup>B</sup> The Centralia Steam Plant was sold in May 2000.

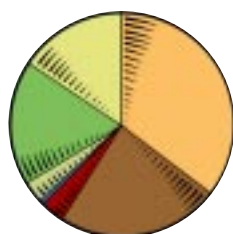
<sup>C</sup> Wholesale purchased power can fluctuate widely from year to year depending upon water conditions in Seattle City Light's drainage area. During 1998 and 2000, the drainage area experienced lower water conditions. Conditions were favorable in 1996, 1997 and 1999.

<sup>D</sup> Wholesale power purchases and sales also include "bookouts" and reserve capacity transactions.

<sup>E</sup> "Other" includes Article 49 delivery, self-consumed energy, system losses, net power exchanges (for years 1996 through 1999), and miscellaneous power transactions. Net power exchanges in 2000 are included in "Long-term purchased power".

## 2000 Sources of Power

(in percent of gWh)



### Generated

- 35% Boundary
- 24% Skagit
- 3% Centralia Steam
- 1% Cedar Falls & So. Fork Tolt

### Treaty

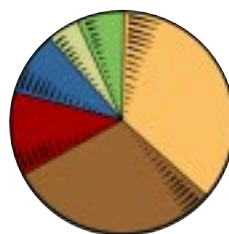
- 3% BC Hydro

### Purchased

- 18% Miscellaneous
- 16% BPA

## 2000 Uses of Power

(in percent of gWh)



### Service Area

- 36% Commercial
- 31% Residential
- 13% Industrial
- 9% Governmental

### Other

- 4% Other
- 7% City Light Operations/Services



# CHANGES IN OWNED TOTAL GENERATING INSTALLED CAPABILITY

# SYSTEM REQUIREMENTS

Year	Plant	KW Added	Peaking Capability Total KW	Year	Kilowatts Average Load	Kilowatts Peak Load <sup>c</sup>
1904-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400	1950	154,030	312,000
1912	Lake Union Hydro Unit 10	1,500	11,900	1955	381,517	733,000
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900	1960	512,787	889,000
1921	Newhalem Hydro Unit 20	2,300	54,200	1965	635,275	1,138,000
1921	Cedar Falls Hydro Unit 5	15,000	69,200	1970	806,813	1,383,000
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	129,200	1975	848,805	1,429,387
1929	Cedar Falls Hydro Unit 6	15,000	144,200	1980	963,686	1,771,550
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400) <sup>A</sup>	133,800	1985	1,025,898	1,806,341
1932	Lake Union Hydro Unit 10	(1,500) <sup>A</sup>	132,300	1986	996,648	1,699,434
1936-37	Diablo Hydro Units 31, 32, 35 & 36	132,000	264,300	1987	987,070	1,724,726
1951	Georgetown Steam Units 1, 2 & 3	21,000	285,300	1988	1,022,442	1,731,518
1951	Gorge Hydro Unit 24	48,000	333,300	1989	1,059,272	1,979,528
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	783,300	1990	1,088,077	2,059,566
1958	Diablo Plant Modernization	27,000	810,300	1991	1,065,987	1,815,164
1961	Gorge Hydro, High Dam	67,000	877,300	1992	1,048,055	1,743,975
1967	Georgetown Plant, performance test gain	2,000	879,300	1993	1,082,616	1,875,287
1967	Boundary Hydro Units 51, 52, 53 & 54	652,000	1,531,300	1994	1,074,852	1,819,323
1972	Centralia Units 1 & 2	102,400	1,633,700	1995	1,072,692	1,748,657
1980	Georgetown Steam Units 1, 2, & 3	(23,000) <sup>A</sup>	1,610,700	1996	1,110,133	1,950,667
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700	1997	1,111,035	1,816,152
1987	Lake Union Steam Units 11, 12 & 13	(40,000) <sup>A</sup>	1,969,700	1998	1,120,178	1,928,854
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,974,300	1999	1,142,382	1,729,933
1993	Centralia Transmission Upgrade	5,000	1,979,300	2000	1,142,383	1,769,440
1995	South Fork Tolt	16,800	1,996,100			
2000	Centralia Units 1 & 2	(107,400) <sup>B</sup>	1,888,700			

<sup>A</sup> Retirement of units (decrease in total capability).

<sup>B</sup> The Centralia steam plant was sold in May 2000.

<sup>c</sup> One-hour peak.

## Total Generation and Firm Energy Load

(In megawatt hours)



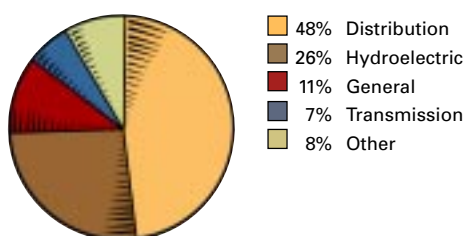
## UTILITY PLANT, AT ORIGINAL COST

For the years ended December 31,	2000	1999	1998	1997	1996
Steam plant* <sup>A</sup>	\$ -	\$ 28,620,025	\$ 28,701,981	\$ 28,513,553	\$ 28,081,635
Hydroelectric plant*	531,705,122	507,902,539	496,924,588	482,814,231	471,002,970
Transmission plant*	135,787,595	130,371,827	129,608,725	128,870,027	125,810,457
Distribution plant*	953,429,070	892,578,913	838,265,006	773,078,710	727,614,852
General plant*	218,149,068	203,660,796	175,365,459	165,564,632	157,075,200
<b>Total electric plant in service</b>	<b>1,839,070,855</b>	<b>1,763,134,100</b>	<b>1,668,865,759</b>	<b>1,578,841,153</b>	<b>1,509,585,114</b>
Accumulated depreciation	(756,498,166)	(731,545,437)	(685,315,961)	(642,639,293)	(598,452,675)
<b>Total plant in service, net of depreciation</b>	<b>1,082,572,689</b>	<b>1,031,588,663</b>	<b>983,549,798</b>	<b>936,201,860</b>	<b>911,132,439</b>
Nonoperating properties, net of depreciation	6,613,263	6,366,276	6,225,934	5,854,060	6,327,458
<b>Utility plant, net of depreciation</b>	<b>1,089,185,952</b>	<b>1,037,954,939</b>	<b>989,775,732</b>	<b>942,055,920</b>	<b>917,459,897</b>
Construction work-in-progress	152,981,465	118,281,967	82,878,682	71,645,046	60,529,756
<b>Net utility plant</b>	<b>\$ 1,242,167,417</b>	<b>\$ 1,156,236,906</b>	<b>\$1,072,654,414</b>	<b>\$ 1,013,700,966</b>	<b>\$ 977,989,653</b>

<sup>A</sup> The Centralia steam plant was sold in May 2000.

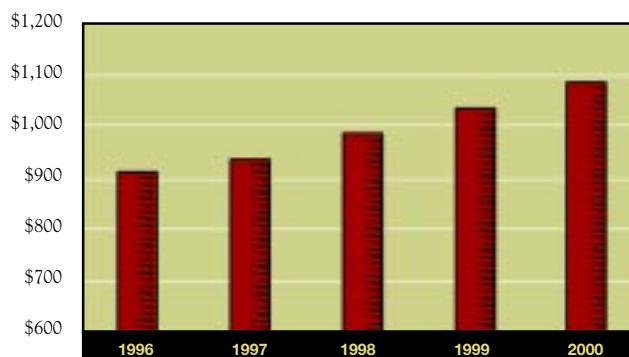
\* Including land.

**2000 Utility Plant**



**Utility Plant in Service, at Original Cost**

(In millions, net of depreciation)



## PAYROLL AND EMPLOYEE BENEFITS

For the years ended December 31,	2000	1999	1998	1997	1996
Full-time equivalent positions	1,647	1,627	1,623	1,678	1,778
Straight time	\$ 74,381,880	\$ 71,440,967	\$ 67,273,819	\$ 66,823,852	\$ 68,559,759
Overtime	16,288,007	13,978,470	9,330,099	7,404,511	6,280,851
Vacation and other	15,680,918	15,474,009	13,899,876	13,555,234	13,929,593
Total payroll	106,350,805	100,893,446	90,503,794	87,783,597	88,770,203
Employee benefits	27,328,937	24,418,514	23,084,040	22,389,857	21,248,714
Total payroll and employee benefits	\$ 133,679,742	\$ 125,311,960	\$ 113,587,834	\$ 110,173,454	\$ 110,018,917
Percentage of employee benefits (including vacation) to straight time	57.8%	55.8%	55.0%	53.8%	51.3%

**Note:** 1999 straight time and overtime were revised in 2000 to use the general ledger as the reporting source going forward. Beginning in 1998, the general ledger was used as the reporting source for vacation and other and employee benefits. In previous years, the payroll system was the reporting source.

## TAXES AND CONTRIBUTIONS TO THE COST OF GOVERNMENT

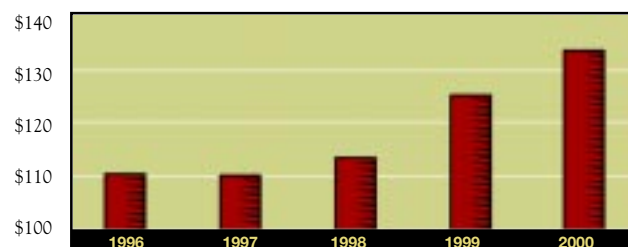
For the years ended December 31,	2000	1999	1998	1997	1996
<b>Taxes</b>					
City occupation and business taxes	\$ 25,107,376	\$ 22,692,502	\$ 21,590,832	\$ 21,745,774	\$ 21,047,317
State public utility and business taxes	15,631,467	14,205,768	14,405,965	13,734,158	13,371,007
Other special taxes	184,271	(108,057)	684,723	261,614	357,815
Contract payments for government services	1,936,941	1,870,866	1,480,481	1,364,078	1,313,550
Total taxes as shown in statement of operations	42,860,055	38,661,079	38,162,001	37,105,624	36,089,689
Taxes/licenses charged to accounts other than taxes	9,012,216	8,874,311	7,380,933	8,832,738	8,400,757
Other contributions to the cost of government	3,513,674	4,686,514	3,479,904	3,237,229	3,442,587
Total miscellaneous taxes	12,525,890	13,560,825	10,860,837	12,069,967	11,843,344
Total taxes and contributions	\$ 55,385,945	\$ 52,221,904	\$ 49,022,838	\$ 49,175,591	\$ 47,933,033

**Note:** Electric rates include all taxes and contributions. The State Public Utility Tax for retail electric power sales was 3.873%.

The City of Seattle Occupation Utility Tax was 6% for retail electric power sales and 5% for out-of-state retail electric power sales.

### Payroll and Employee Benefits

(In millions)



## RETAIL ELECTRICAL CUSTOMER INVESTMENT

For the years ended December 31,	2000	1999	1998	1997	1996
<b>Conservation <sup>A</sup></b>					
Non-programmatic conservation expenses <sup>B</sup>	\$ 1,959,891	\$ 2,540,280	\$ 2,330,961	\$ 2,819,454	\$ 3,302,633
Conservation programs <sup>C</sup>					
Non-low income	13,787,361	16,136,265	16,121,498	12,121,898	16,455,878
Low income	1,882,941	1,820,369	1,646,120	1,624,811	1,624,056
External conservation funding					
Bonneville Power Administration					
Non-low income	-	(1,680,060)	(3,064,427)	(5,310,336)	(9,904,627)
Low income	-	-	2,594	(167,540)	(427,887)
Customer obligation repayments <sup>D</sup>	(1,468,189)	(2,306,792)	(2,803,620)	(2,279,366)	(1,064,557)
<b>Low-income Energy Assistance <sup>E</sup></b>	3,856,448	4,026,366	4,180,513	4,506,452	4,866,331
<b>Non-hydro Renewable Resources <sup>F</sup></b>	238,015	241,715	221,748	265,458	282,514
Net public purpose spending	\$ 20,256,467	\$ 20,778,143	\$ 18,635,387	\$ 13,580,831	\$ 15,134,341
Revenue from electric sales	\$ 391,578,285	\$ 367,934,881	\$ 360,625,360	\$ 362,710,992	\$ 356,670,693
Percent public purpose spending	5.2%	5.6%	5.2%	3.7%	4.2%
Energy savings in year (MW hours) <sup>G</sup>	698,947	668,669	615,814	565,618	530,769

Note: Certain prior year amounts have been restated to conform to the current presentation.

<sup>A</sup> Non-programmatic conservation is funded from current revenues. Conservation programs are financed by either debt or current revenues.

<sup>B</sup> Non-programmatic expenditures include the regional Lighting Design Lab, support of energy codes and early adopter activities, program planning, evaluation, data processing, and general administration.

<sup>C</sup> Non-low income programmatic conservation includes expenditures for program measures, incentives, field staff salaries, and direct program administration. Low-income programmatic conservation includes these expenditures for the Department's Low-Income Electric and Low-Income Multifamily Programs.

<sup>D</sup> Customer obligations repaid in each year include payments on outstanding five-year or ten-year loans, plus repayments in the first year after project completion for utility-financed measures.

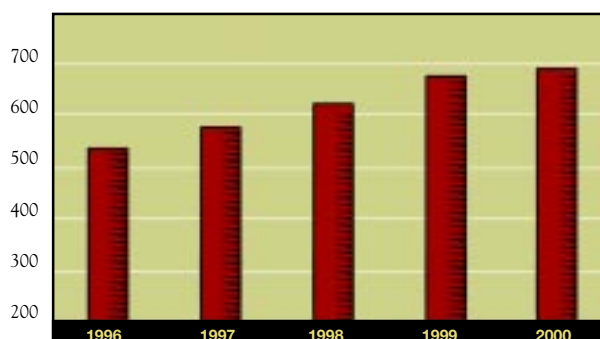
<sup>E</sup> Low-income assistance includes rate discounts; payments from the low-income account (from interest earnings to help low-income customers with bill payments); and waivers of charges for appliance repair, trouble calls, account changes, and administration.

<sup>F</sup> Co-generation from the West Point Sewage Treatment plant is funded from current revenues. The Department purchased from King County approximately 7,554 MWh of energy generated by three reciprocating engines using methane gas from the treatment plant. Total electrical output will be purchased under the power purchase contracts executed with Metro in 1983, until termination of the agreement in September 2003.

<sup>G</sup> Electricity savings in each year are from cumulative conservation program participants for completed projects with unexpired measure lifetimes.

### Energy Saved Through Conservation

(In thousands of MWh)



## ELECTED OFFICIALS

(As of January 2001)

### Mayor

Paul Schell

### Seattle City Council

Margaret Pageler, Council President

Chair: Legislative Department and Intergovernmental Affairs

Chair: Water Resources, Solid Waste, and Public Health Committee

### Jim Compton

Chair: Public Safety and Technology Committee

### Richard Conlin

Chair: Neighborhoods, Sustainability and Community Development Committee

### Jan Drago

Chair: Finance, Budget and Economic Development Committee

Chair: Labor Relations Policy Committee

### Nick Licata

Chair: Culture, Arts and Parks Committee

### Richard McIver

Chair: Transportation Committee

### Judy Nicastro

Chair: Landlord/Tenant and Land Use Committee

### Peter Steinbrueck

Chair: House, Human Services, Education and Civil Rights Committee

### Heidi Wills

Chair: Energy and Environmental Policy Committee

### City Attorney

Mark Sidran

## EXECUTIVE TEAM

### Gary Zarker

(206) 684-3200

*Superintendent*

### Dana Backiel

(206) 386-4500

*Deputy Superintendent- Generation Branch*

Generation Engineering

Generation Plant Operations

Generation Program Management

Boundary Capital Improvement Project

Skagit Capital Improvement Project

### Paula Green

(206) 386-4530

*Deputy Superintendent- Power Management Branch*

System Control Center

Power Marketing Monthly

Power Marketing Real Time

Resource Administration

Automated Systems

### Jesse Krail

(206) 615-1505

*Deputy Superintendent-Distribution Branch*

Systems Engineering

North Electric Service

South Electric Service

Central Electric Service

Power Stations

Distribution Program Management

Apprenticeship Office

### Andrew Lofton

(206) 684-3361

*Deputy Superintendent-Customer Services Branch*

Account Executives

Account Services

Energy Management Services

Hearing Officer

### Jim Ritch

(206) 386-4500

*Deputy Superintendent-Finance and Administration Branch*

Finance

Facilities Management

Information Technology

### Nancy Glaser

(206) 684-3117

*Director of Strategic Planning*

*Acting Director of Environment and Safety*

### Bill Kolden

(206) 684-3125

*Director of Human Resources*

### Bob Royer

(206) 615-0050

*Director of Communications and Public Affairs*